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SUBJECT: UNEMPLOYMENT RATE INCHES UP, IMMIGRANTS
PARTICULARLY AFFECTED

¶1. (SBU) Summary. As unemployment rates begin to inch up, voters have yet another reason to worry about the future of the economy. Spain's unemployment rate hovers at a little over 8 percent (low by historical standards) with immigrants and young workers being the most vulnerable to losses. Although unemployment increases have been minor so far, it is generally agreed that the housing construction slowdown will cause greater unemployment in 2008. GOS officials continue to be optimistic and have told Emboffs that growth in other sectors will offset construction unemployment. However, it is questionable whether recently laid-off construction workers, many of whom are low-skilled, will be absorbed by other sectors that require higher skills. Unemployment concerns have become fair game in the electoral arena. End Summary.

UNEMPLOYMENT RATE INCHES UP, IMMIGRANTS AFFECTED

¶2. (U) According to Ministry of Labor estimates for the first three quarters of 2007, over 640,000 new net workers entered the labor force, while 615,000 net jobs were created. In other words, both employment and unemployment increased. The industry and services sector experienced overall gains while agriculture and construction experienced net losses. Spain's National Statistics Institute indicates that unemployment increased to 8.05 percent during the third quarter, slightly higher than the second quarter rate of 7.95 percent. Though this increase can be considered slight by some, the universal expectation is that unemployment will increase into 2008 following a recent housing construction downturn.

¶3. (U) With a glut of properties and lower housing demand sharply reducing housing starts, construction workers are finding it more and more difficult to hold on to their jobs. The most affected by this trend are immigrants. According to the Ministry of Labor, 3.2 million immigrants currently take part in Spain's labor market (compared with 500,000 in 2004), a quarter of whom are working in construction. Unemployment estimates for immigrant workers vary, but the Ministry of Labor and the National Statistics Institute's labor market survey agree that immigrant worker unemployment increased 24 percent in 2007. Media reports have drawn attention to this growing problem, highlighting the increasing number of immigrants on Spain's unemployment rolls.

¶4. (U) Younger workers are also more likely to be affected by any job slow-down. While established workers tend to work under "permanent" contracts that provide extremely generous

separation benefits, younger, less experienced workers are often hired under temporary contracts which do not contain such benefits. Those workers not covered under permanent contracts are easily laid off in tight financial times. (Note: Roughly 1 out of every 3 salaried workers in Spain works under a temporary contract, a level which unions, business associations, and the GOS have worked to address starting with the 2006 tri-partite labor negotiations).

INFLATION AND RIGID LABOR CONTRACTS MAY STUNT JOB GROWTH

¶5. (U) Recent inflationary pressures, which have forced some businesses to increase salaries based on labor agreements, may also stunt future job growth. Spain's leading business association, CEOE, recently estimated that businesses would have to pay an additional 3 billion euros in wages in the upcoming year to adjust for inflation (4.2 percent in December). Over 45 percent of the labor force is covered under collective bargaining processes, seventy percent of which are covered under clauses that automatically adjust salaries in case of high inflation. Labor contracts in Spain, considered to be some of the most rigid in the world, require that employees be paid up to 45 days per year worked if they are laid off (maximum 42 months).

MINISTRY OF LABOR NOT WORRIED ABOUT JOB LOSS

¶6. (SBU) During a January 11 meeting with Econoffs, Alfonso Prieto, Deputy Director General of Employment Studies at the Ministry of Labor, seemed less concerned about the job growth

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slowdown. He acknowledged that job growth was indeed slowing but maintained that employment would still grow at strong, albeit more moderate levels. He pointed out that even with unemployment increases, the current rate was still one of the lowest that Spain had experienced in years. He opined that unemployment would not reach 9 percent anytime soon, and said that unemployed construction workers would be absorbed by growth in other areas. (The economic team of one of Spain's leading banks expressed a similar view to us privately a few months ago.)

¶7. (SBU) Despite this optimism, Prieto acknowledged that job creation was not keeping up with demand. With average immigrant worker populations increasing by half a million annually and with the integration of more female workers, demand for jobs is outpacing current levels of growth. He also agreed that unemployed construction workers generally possessed a very low skill set -- one that would be difficult to transfer to other areas. However, Prieto mentioned that the Ministry of Labor would be considering training options, and on January 14, Second Vice President and Minister of Economy Pedro Solbes announced that if re-elected, the government would provide training to unemployed construction workers.

COMMENT

¶8. (SBU) Overall, unemployment increases are minor right now, although it may not seem so based on local press spin. However, the increasing levels of unemployed immigrants and the increasing, even if minor, dependence on unemployment benefits have gained prominence - perhaps hinting at a future immigrant backlash. Furthermore, though rates are moderate now, the threat of higher future unemployment has become a concern. Meanwhile, the Socialist government is trumpeting past employment gains (3 million jobs over the past 4 years) with a promise to increase jobs by 2 million in the next four years if re-elected. The Socialists will also likely point

to the lower unemployment rate, which at 8 percent is more than 2 points lower than when it took office from the PP. However, in less than two weeks, 2007 fourth quarter statistics will be released, the results of which will likely provide more fodder for the PP to challenge the PSOE government's economic stewardship. All of this points to a slowing economy and a rising level of job losses. The immediate question is whether these adverse economic indicators will be sufficiently evident to have an impact in the upcoming General Elections. Beyond that, there is agreement that the Spanish economy is slowing, but it remains to be seen whether it is a downward glide or a more abrupt and hard landing.

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